



FOR THE RECORD

**Statement
on
Health Insurance Premiums Under the Affordable Care Act**

**America's Health Insurance Plans
601 Pennsylvania Avenue, NW
South Building, Suite 500
Washington, DC 20004**

**Submitted to the
House Ways and Means Committee
Subcommittee on Oversight**

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I. Introduction

America's Health Insurance Plans (AHIP) is the national association representing health insurance plans. Our members provide health and supplemental benefits to more than 200 million Americans through employer-sponsored coverage, the individual insurance market, and public programs such as Medicare and Medicaid. AHIP advocates for public policies that expand access to affordable health care coverage to all Americans through a competitive marketplace that fosters choice, quality, and innovation.

We appreciate the subcommittee's interest in the cost of health coverage for consumers in the individual insurance market. Affordability of coverage is a top priority for AHIP and our member plans. Health plans are actively competing in the new marketplaces and are doing everything possible to offer competitive and affordable coverage options that provide value to consumers.

As Congress seeks to understand the impact of the Affordable Care Act (ACA) on health insurance premiums, we urge you to consider three major points:

- Premiums are based on a complex set of factors that reflect the cost of providing coverage to individuals in each state's marketplace. A number of factors are placing upward pressure on premiums and we need to address these cost drivers – including soaring prescription drug prices and rising provider costs driven by hospital consolidation.
- There is wide variation in proposed premium rates that will affect consumers in different ways, depending on where they live, their current coverage, their age, their income and eligibility for subsidies, and other factors.
- Consumers benefit from competition and choice, and health plans provide a wide range of coverage options, including choice of provider network, cost-sharing, and monthly premium costs. In the new marketplace, individuals are making their own decisions about the coverage that is right for them and their family. Affordability of premiums is a key part of the decision-making process and plans are working hard to keep premiums as affordable as possible in these new competitive markets.

With these points in mind, our statement focuses on: (1) specific factors that will affect premiums in the 2016 benefit year; and (2) a new Avalere analysis that examined proposed 2016 premiums for individual Exchange plans in seven states and the District of Columbia.

II. Specific Factors That Will Affect Premiums in the 2016 Benefit Year

To better understand the issues that impact health insurance premiums, it is important for policymakers to focus on the following factors: (1) underlying health care costs; (2) provider consolidation; (3) the covered population; (4) taxes and fees; (5) benefit mandates; (6) the ACA's premium stabilization programs; and (7) premium subsidies and related factors.

Underlying Health Care Costs

Health insurance premiums track directly with the underlying cost of medical care. Rising prices for care, particularly for prescription drugs and medical treatments, continue to make coverage more expensive for consumers.

A recent analysis of Census Bureau data by the Kaiser Family Foundation¹ found that health care costs increased by 7.3 percent in the first quarter of 2015 (compared to the first quarter of 2014), with hospital spending increasing by 9.2 percent.

Additionally, an October 2014 study² by the Health Care Cost Institute found that rising prices “were the primary drivers of spending growth for all medical service categories and brand prescriptions” in 2013. This study found that the average price paid per service increased by 6.7 percent for inpatient services, 5.8 percent for outpatient services, 2.5 percent for professional procedures, and 21.2 percent for brand name prescription drugs.

Prescription drug prices, particularly for high-priced specialty medications, continue to soar and are one of the leading drivers of health care cost increases. In 2014, national spending on prescription drugs increased 13 percent – representing the largest annual increase since 2001 – and specialty drug spending increased 26.5 percent.³

¹ *Wall Street Journal*, “New Evidence Health Spending Is Growing Faster Again,” Drew Altman, President and CEO of the Kaiser Family Foundation, June 11, 2015

² Health Care Cost Institute, *2013 Health Care Cost and Utilization Report*, October 2014

³ IMS Institute for Healthcare Informatics, *IMS Health Study: 2014 a Record-Setting Year for U.S. Medicines*, April 14, 2015

Provider Consolidation

A new AHIP data brief⁴ highlights research showing a statistically significant positive correlation between increases in health insurance premiums and the degree of hospital consolidation in Exchange markets in three states. The findings of this research, based on an analysis of monthly premium data from October 2014, demonstrate that:

- In Georgia, insurance premiums were 35 percent to 52 percent higher in highly consolidated markets compared to premiums for plans offered to residents in markets having less provider consolidation.
- In Missouri, people living in highly consolidated markets paid 31 percent to 46 percent more than those living in areas of the state with greater levels of hospital competition.
- In Ohio, premiums were 9 percent to 13 percent higher in the least competitive hospital marketplaces compared to premiums in more competitive markets.

Our data brief also highlights research from other studies showing, for example, that: (1) physician prices increased, on average, by 14 percent for medical groups acquired by hospital systems; (2) hospital mergers in already concentrated markets could result in price increases of as much as 20 percent, without any corresponding improvement in the quality of care; and (3) local hospital ownership and multi-hospital health system ownership of provider groups resulted in per patient expenditures that were 10 percent to 20 percent higher than for patients seen at independently owned groups.

Covered Population

The mix of enrollees participating in the new marketplaces – particularly with respect to age and health status – has a significant impact on the cost of providing coverage. Across many states, costs are higher because Exchange enrollees tend to be relatively older and have chronic conditions.

Under the Administration’s transitional policy for pre-ACA plans, a number of states have allowed consumers to renew policies that pre-date the law’s coverage requirements. The marketplaces in these states may not have the broad participation that is needed among the young

⁴ AHIP Data Brief, *Impact of Hospital Consolidation on Health Insurance Premiums*, June 2015

and the healthy to offset some of the cost increases associated with the ACA's requirements. According to the American Academy of Actuaries⁵, "if lower cost individuals retain their prior coverage and higher cost people move to new coverage, the medical spending for those purchasing new coverage could be higher than expected." This expectation is reinforced by an analysis by the National Institute for Healthcare Management Foundation⁶, which projected that states that adopted the transitional policy will experience premium increases that are 10 percent larger, on average, than in other states.

The continued adverse selection created by the extension of the transitional policy can be expected to place upward pressure on premiums in some states. Conversely, as the transitional policy begins to phase out and as more individuals enter the ACA-compliant risk pool, this could have a stabilizing effect on premiums in future years.

Taxes and Fees

The ACA imposes an assortment of taxes and fees at the federal level – most notably the health insurance tax. Additionally, some states have imposed taxes and fees, including those intended to help finance the operations of the new marketplaces.

The ACA health insurance tax is set at \$8 billion in 2014, \$11.3 billion in 2015 and 2016, \$13.9 billion in 2017, and \$14.3 billion in 2018. In subsequent years, the tax will increase annually based on premium growth. The most recent estimate from the Congressional Budget Office indicates that this tax will cost \$142 billion over ten years.

We are deeply concerned that implementation of the new health insurance tax is undermining efforts to control costs and provide affordable coverage options. An Oliver Wyman study⁷, commissioned by AHIP, has concluded that the health insurance tax alone will increase the cost of family coverage in the individual market by an average of \$5,080 over the ten-year period of 2014-2023. This study also estimated that the health insurance tax will increase the cost of family coverage in the small group market by an average of \$6,830 over the same ten-year period. Additionally, a state-by-state analysis⁸ by Oliver Wyman has provided per-person and cumulative estimates of the impact this tax will have on individual market consumers,

⁵ American Academy of Actuaries, *Proposals to Address Insurance Cancellations Could Threaten Viability of New ACA Insurance Markets*, press release, November 14, 2013

⁶ National Institute for Healthcare Management Foundation, *What to Expect for 2015 ACA Premiums: An Actuary Opens the Black Box*, May 2014

⁷ Oliver Wyman, *Estimated Premium Impacts of Annual Fees Assessed on Health Insurance Plans*, October 2011

⁸ Oliver Wyman, *Annual Tax on Insurers Allocated by State*, November 2012

employers, and Medicare Advantage enrollees in all 50 states, as well as the impact on state Medicaid managed care programs.

House and Senate bills proposing to fully repeal the health insurance tax (H.R. 928 / S. 183) have been cosponsored by 230 House members and 35 senators. The bipartisan House bill now claims a majority of House members as cosponsors – a significant milestone in demonstrating widespread congressional support for taking action on this issue. These efforts to repeal the health insurance tax, which our members strongly support, would take an important step toward making health coverage more affordable.

Benefit Mandates

The ACA requires health plans to provide coverage for an essential health benefits (EHB) package covering a broad range of mandated benefits, some of which typically were not included in pre-ACA individual and small group policies. The health reform law further requires that coverage sold through the Exchanges must be at one of four actuarial value levels: 60 percent (Bronze); 70 percent (Silver); 80 percent (Gold); or 90 percent (Platinum) – meaning that the policy is required to cover a specified percentage of the health care costs of a standard population. The costs associated with these benefits are factored into premiums.

State-mandated benefits also may go above and beyond what is required by the ACA. These additional required benefits add to the cost of coverage and are reflected in insurance premiums.

ACA Premium Stabilization Programs

The ACA established three premium stabilization programs – risk adjustment, reinsurance, and risk corridors – in an effort to promote competition and affordability for consumers during the early years of the law’s implementation. Our members strongly support these programs as essential tools for helping to create a stable and predictable environment for consumers who are purchasing coverage in the new marketplaces.

While these programs play a critical role in promoting market stability and affordability for consumers, there will be reduced funding for reinsurance next year – \$4 billion in 2016, down from \$6 billion in 2015. This will result in reduced reinsurance payments for 2016, which in turn is likely to place upward pressure on premiums.

ACA Subsidies and Other Factors

The ACA provides premium assistance tax credits and cost-sharing reduction (CSR) subsidies to make coverage affordable for low-income and moderate-income families. According to the Department of Health and Human Services (HHS)⁹, approximately 85 percent of Exchange enrollees nationwide currently are receiving tax credits, averaging \$272 per month, to cover a portion of their premiums. In addition, 57 percent of Exchange enrollees are receiving CSR payments that reduce the amount they pay for deductibles, coinsurance, and copayments.

Finally, the ACA subsidies are linked to the individual mandate which is enforced through a penalty set at \$325 or 2 percent of household income (whichever is higher) in 2015. This penalty will increase next year to \$695 or 2.5 percent of household income (whichever is higher). Combined with financial assistance and increased consumer awareness of the new marketplaces, the individual mandate penalty is designed to encourage more individuals, particularly younger and healthier individuals, to participate in the Exchanges. This will place downward pressure on premiums by promoting broader participation and more stable markets.

III. Avalere Analysis of Premiums for 2016

A recent analysis by Avalere Health LLC¹⁰ provides insights into the premiums consumers will pay in 2016 for individual Exchange plans in seven states and the District of Columbia.

This analysis found that proposed premium increases are largely stable in 2016, with premiums for all Silver plans increasing by an average of 5.8 percent in Connecticut, Maryland, Michigan, Oregon, Virginia, Vermont, Washington, and the District of Columbia. Avalere further concluded that premiums for the lowest cost Silver plans increased by an average of 4.5 percent, and that premiums for the second lowest cost Silver plans increased by an average of 1 percent.

The Avalere analysis examined premiums for an individual, 50-year-old non-smoker and focused on 2016 rate filings obtained through Department of Insurance websites as of May 29, 2015. State-specific data for the average Silver plan are shown below:

⁹ U.S. Department of Health and Human Services, *March Effectuated Enrollment Consistent with Department's 2015 Goal*, press release, June 2, 2015

¹⁰ Avalere Health LLC, *Lowest-Cost Exchange Premiums Remain Competitive in 2016*, June 11, 2015

	Average Silver Plan		
State	2015	2016	% Change
CT	\$505	\$525	4.0%
DC	\$393	\$424	7.8%
MD	\$377	\$409	8.5%
MI	\$443	\$419	-5.3%
OR	\$376	\$421	12.0%
VA	\$422	\$469	11.0%
VT	\$455	\$483	6.2%
WA	\$417	\$433	4.0%
Average	\$423	\$448	5.8%

These data are for unsubsidized premiums, not including the ACA's premium assistance tax credits. As we noted above, approximately 85 percent of Exchange enrollees nationwide are receiving tax credits this year – meaning that out-of-pocket premium costs for most consumers will be somewhat lower than the amounts shown in the table above.

IV. Conclusion

Thank you for considering our perspectives on issues affecting health insurance premiums. Our members are strongly committed to continuing to work with Congress, the Administration, and other stakeholders to expand access to high quality, affordable coverage options.